This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 02 HARARE 002296

SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
USAID FOR MARJORIE COPSON

¶E. O. 12958: N/A
TAGS: ECON ETRD EFIN ZI
SUBJECT: Zimbabwe Exporters May Bear Heavier Burden

Sensitive but unclassified.

¶1. (U) Summary: Zimbabwe's Reserve Bank will soon propose measures that would further punish the country's exporters, increasing an indirect revenue tax from 37 to 47 percent. End Summary.

¶2. (SBU) The Embassy has acquired the Reserve Bank's Foreign Exchange Task Force report, the GoZ's latest attempt to address its foreign currency shortfall. We understand the working paper will soon move to the Finance Ministry for vetting. The paper advocates stricter fiscal and monetary restraint, but its more specific prescriptions are either counterproductive or too meek to have an impact.

The indirect export tax

¶3. (SBU) The plan would raise from 40-to-50 percent the portion of revenue subject to mandatory conversion at the official rate. At present, exporters must exchange 40 percent of earnings at this rate, which is just one-fifteenth of the parallel rate. The exchange requirement amounts to a crippling 37 percent indirect tax on revenue, not profit, in addition to Zimbabwe's more conventional taxes and royalties. For example, it means Zimbabwean gold miners earn just US$ 175/ounce versus a world price of US$ 318. Plagued by this comparative disadvantage, exporters -- the country's traditional forex earners -- have already cut production to bare bones. The new plan would raise this exchange rate "tax" from 37 to 47 percent.

¶4. (SBU) In addition, the plan would:

- increase the exchange rate for imported luxuries from 300-400 percent, raising by one-third the value subject to import duties. (Many Zimbabweans purchase cars while in South Africa.)

- offer to sell Zimdollars to expatriate Zimbabweans as well as Harare's diplomatic missions at a 320:1 rate. (The USG has been buying Zimdollars in the U.S. at 860:1.)

- restrict foreigners to fuel purchases at designated gas stations. (Foreign truckers frequently enter Zimbabwe to load up on heavily-subsidized fuel.)

- advocate a fuel conservation campaign. (The paper suggests that "there might be a need to adjust tariffs.")

- suspend non-essential foreign travel for GoZ and parastatal officials.

- lease some of Air Zimbabwe's planes. (The managing director tells us that the airline, once slated for privatization, has lost 30 percent of capacity since 2000.)

- reduce Zimbabwe's foreign missions.

- scale down GoZ shares in several parastatals (without relinquishing a controlling interest).

Comment

¶5. (SBU) The proposal to raise the exchange requirement indicates that the GoZ still believes it can print, tax and expropriate its way to larger revenues. While several other measures gingerly challenge official policy, there are no bold recommendations for floating exchange rates, dollarized accounts, unsubsidized fuel or genuine privatizations. Saddled with steeper indirect taxes, exporters will likely produce even less. The GoZ ends up with a larger slice of a smaller pie and no appreciable balance-of-payments or forex gains.

¶6. (SBU) This is reason for concern in a country whose export and manufacturing sectors are crumbling. Since the late-1990s, tobacco exports -- once tops in the world -- may be down from US$ 400 to 105 million by next year; gold mining falling 29 to just 14 tonnes; manufacturing off 34 percent. In spite of this tumble, the Reserve Bank paper suggests that statist solutions still dominate GoZ thinking, probably dashing hopes that the 2003 budget will bring relief to producers.

Sullivan